



# Internal Audit Report

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Lease and Concession Audit

Project Horizon  
(dba InMotion Entertainment)

June 1, 2010 – May 31, 2013

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Report No. 2013-10

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## Transmittal Letter

Audit Committee  
Port of Seattle  
Seattle, Washington

We have completed an audit of the Project Horizon Lease and Concession Agreement. We reviewed information relating to a three-year period from June 1, 2010 – May 31, 2013.

We conducted the audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We extend our appreciation to the Aviation Business Development Office and Accounting and Financial Reporting staff for their assistance and cooperation during the audit.



Joyce Kirangi, CPA  
Internal Audit, Director

**Audit Team:**

Ruth Riddle, Sr. Internal Auditor  
Jack Hutchinson, Audit Manager

**Responsible Management Team:**

Deanna Zachrisson, Mgr. Concessions Management  
James Schone, Dir. AV Business Development

## Executive Summary

**Audit Scope and Objective** The purpose of the audit was to determine whether:

1. The reported concession is complete, properly calculated, and remitted timely.
2. The lessee complied with significant provisions of the lease and concession agreements.

The scope of our audit covered the period from June 1, 2010 – May 31, 2013.

**Background** The current lease and concession agreement began in June 2006 and runs through May 31, 2016. The agreement calls for a Minimum Annual Guarantee (MAG) of 85% of the prior year's reported concession fees or a concession payment of 14% of gross receipts, provided the concession is higher than the MAG.

The MAG is due on the first of the month. The percentage fee is due on the 15<sup>th</sup> of each month for the preceding month. For untimely payments, the agreement provides for a one-time late fee of 5% of the overdue amount and an accrued interest charge of 18% per year from the due date until paid.

**Audit Result Summary** Project Horizon's (dba InMotion Entertainment) reported concession was complete, properly calculated, and remitted timely. Project Horizon materially complied with significant provisions of the lease and concession agreement.

## Background

Project Horizon operates the nation’s largest network of airport-focused electronics shops under various brands, including “InMotion Entertainment” (*neé* InMotion Pictures). The InMotion retail concept was originally launched in 1999, with a primary focus on renting portable DVD players and movies to travelers, who would rent in one airport location and return the rented goods to another InMotion location at their final destination.

InMotion originally supplemented its DVD-rental business model with limited ancillary sales, including headphones and batteries. In the mid-2000s, Project Horizon shifted its business model away from DVD-rental schemes, to consumer technologies such as laptops, tablets, and digital entertainment stores. The company focused on growing sales of high-end technology accessories and electronics, as well as DVD and Blu-Ray discs.

The current lease and concession agreement between the Port and Project Horizon began in June 2006 and runs through May 31, 2016. The agreement calls for a Minimum Annual Guarantee (MAG) of 85% of the prior year’s reported concession fees or a concession payment of 14% of gross receipts, provided the concession is higher than the MAG. The following table provides key financials for the agreement during the audit period:

<b>Key Financials for InMotion Entertainment Lease &amp; Concession Agreement</b>			
<i>Agreement years 2010-11, 2011-12, 2012-13 (June 1 - May 31)</i>			
	2010-11 A.Y.	2011-12 A.Y.	2012-13 A.Y.
Gross Receipts <sup>1</sup>	\$ 1,194,030	\$ 1,959,301	\$ 2,141,671
Concession & Rent Payments <sup>2</sup>	\$ 163,968	\$ 270,099	\$ 298,293
Data Sources: <sup>1</sup> InMotion’s CFO-Certified Annual Financial Reports <sup>2</sup> Port of Seattle PeopleSoft Financials.			
Data Note: The rent payment is exactly one-half of the monthly concession payment.			

## Audit Scope and Methodology

We reviewed information for the period June 1, 2010 – May 31, 2013. We utilized a risk-based audit approach from planning to testing. We gathered information through research, interviews, observations, and analytical reviews, in order to obtain a complete understanding of the lease and concession agreement between the Port and Project Horizon.

We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

1. The reported concession is complete, properly calculated, and remitted timely.
  - (a) We reconciled point-of-sale records to the general ledger for five weeks: August 1, 2013 – September 8, 2013.

- (b) We reconciled the daily point-of-sale records to the lessee's bank records for the same five-week period.
- (c) We reviewed all rent and concession payment dates to determine whether they were paid on-time
- (d) We reviewed prior billings to identify any prior late payment billings by the Port.

2. The lessee complied with significant provisions of the lease and concession agreements.

- (a) We reviewed corporate surety bonds (or other security) in place during the audit period.
- (b) We reviewed all of the required insurance policies to determine if the amounts and coverage were in place and proper during the audit period.
- (c) We determined whether the lessee submitted its annual financial reports, as well as its annual street pricing/market trend analysis reports as required by the agreement.

## Conclusion

Project Horizon's (dba InMotion Entertainment) reported concession was complete, properly calculated, and remitted timely. Project Horizon materially complied with significant provisions of the lease and concession agreement.